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OUTLOOK 2023

« *Down the Rabbit Hole* »

28.11.2022



GLOBAL BALANCED EXPERTISE OUTLOOK 2023

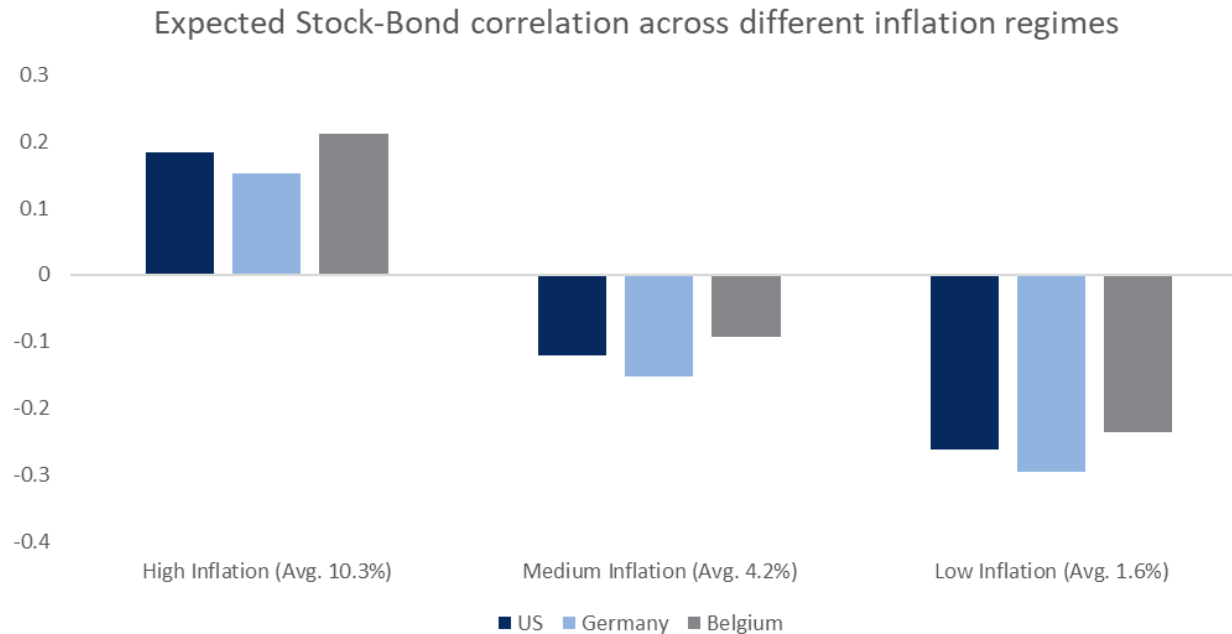
Olivier Van Haute

Head Of Global Balanced Funds, Fund Manager



EXPECTED STOCK-BOND CORRELATIONS

- Based on our stock-bond correlation model we expect **less outspoken** positive **correlations** in 2023.
- Key variable remains the **inflation regime**.



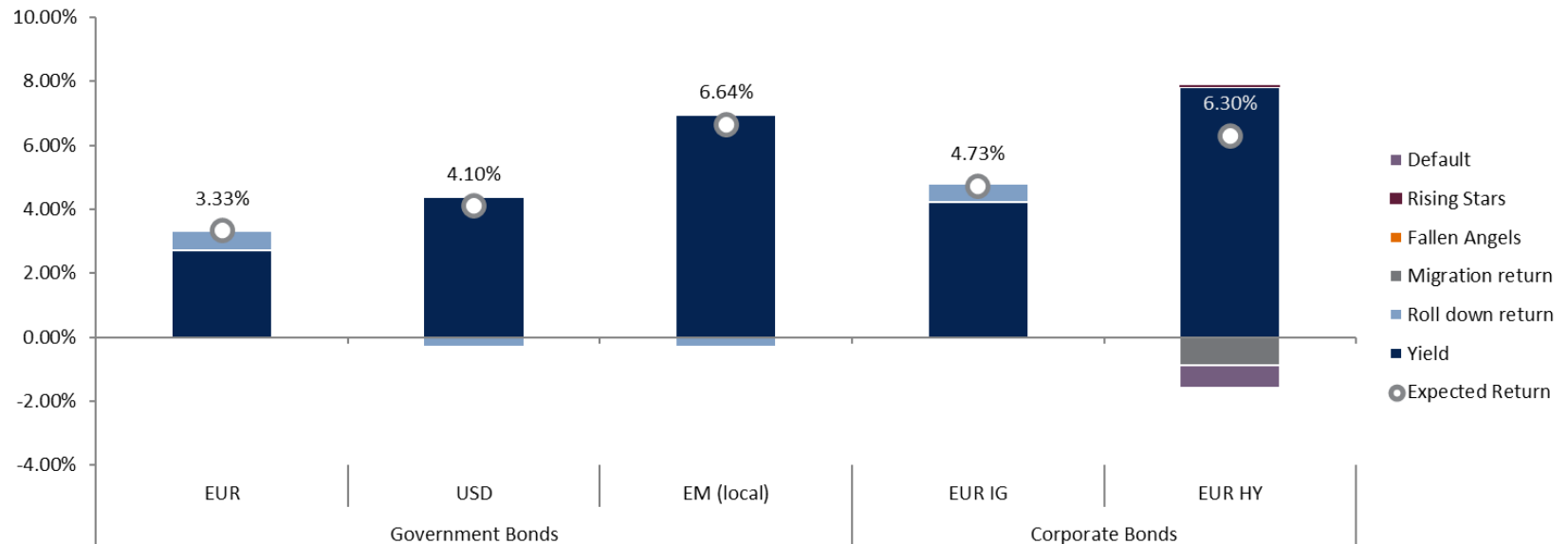
Source: DPAM Quant Solutions



INCOME OPPORTUNITIES

- We aim for **income opportunities** in 2023 as we expect lingering growth risks, moderating inflation prints and peak interest rate volatility.

Expected returns - Breakdowns

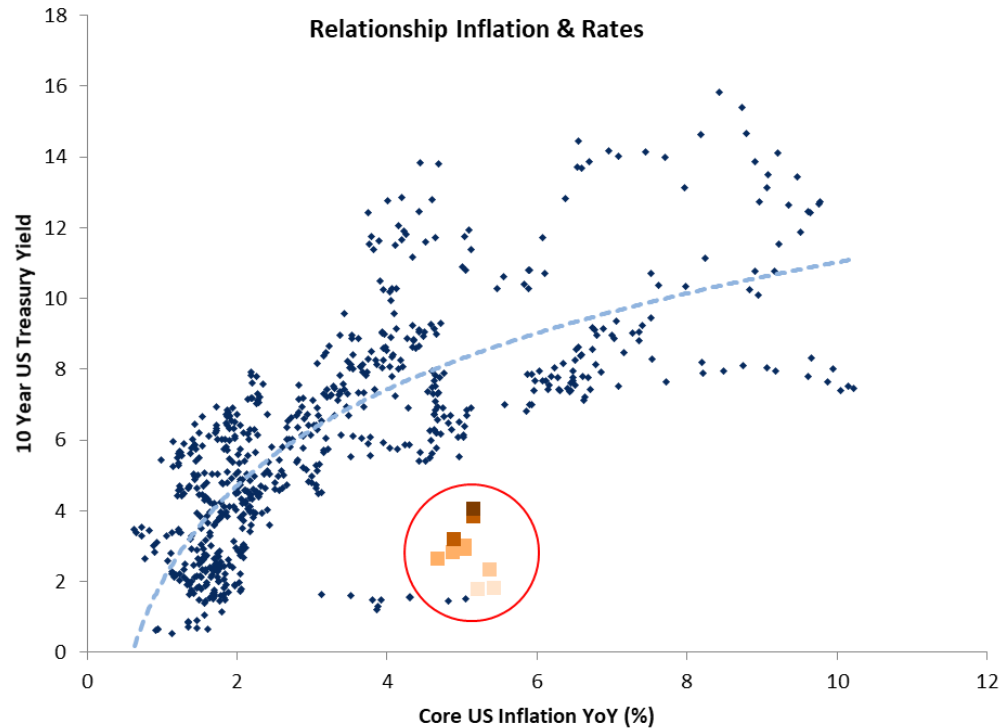


Source: DPAM Multi-Asset



OPPORTUNITY 1: RISK/REWARD **US TREASURIES**

- Inflation – rates anomaly to normalise as core inflation moves down gradually.

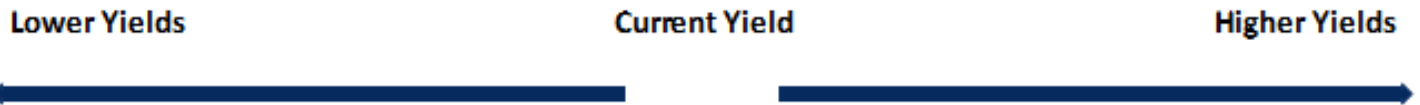


Source: DPAM Multi-Asset



OPPORTUNITY 1: RISK/REWARD **US TREASURIES**

- US Treasuries offer an attractive running yield and **a good risk/reward** balance.
- Even if rates rise another 1% from here, it would take little over a year to recuperate these losses.
- Stable or lower rates on the other hand will see attractive returns for investors.



Return on investment on different horizons - Yield add on

	1.9%	2.4%	2.9%	3.4%	3.9%	4.4%	4.9%	5.4%	5.9%
1 Year	18%	15%	11%	8%	4%	0%	-4%	-7%	-11%
2 Years	20%	17%	14%	11%	8%	5%	1%	-2%	-6%
3 Years	23%	20%	18%	15%	12%	9%	6%	3%	0%
4 Years	25%	23%	21%	19%	16%	14%	11%	9%	6%
5 Years	27%	26%	24%	23%	21%	19%	17%	14%	12%

Source: DPAM Multi-Asset



OPPORTUNITY 2: SHORT-TERM HIGH YIELD

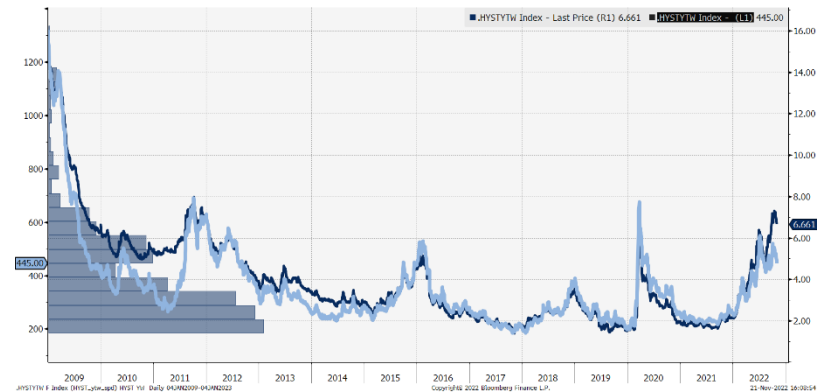
- We are more cautious on High Yield generally, but the **short-dated spectrum (1-3 yrs) looks attractive.**
- **Maturity wall** is largely a challenge for '25 and '26.
- **Spreads** cover an above-average default cycle.

Maturity Wall EU High Yield Bonds & Loans, € bn



Sources: JP Morgan

European ST HY bonds (1-3 yrs) Yield and Spread



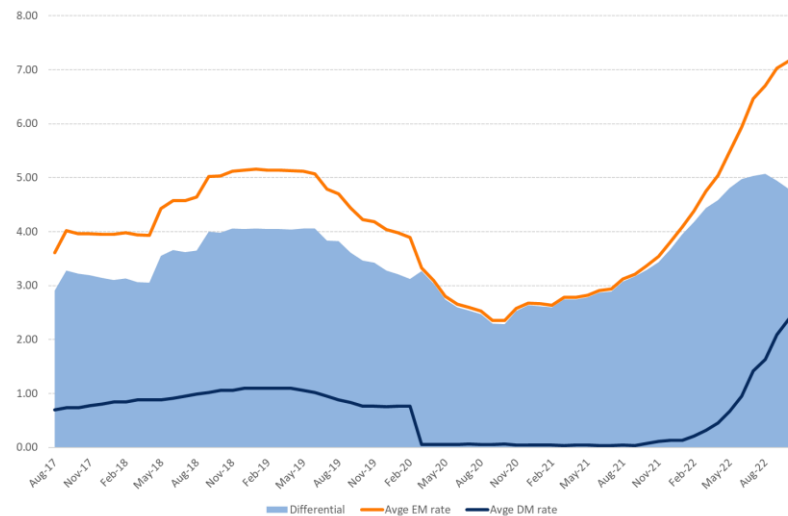
Sources: Bloomberg



OPPORTUNITY 3: EM GOVERNMENT DEBT

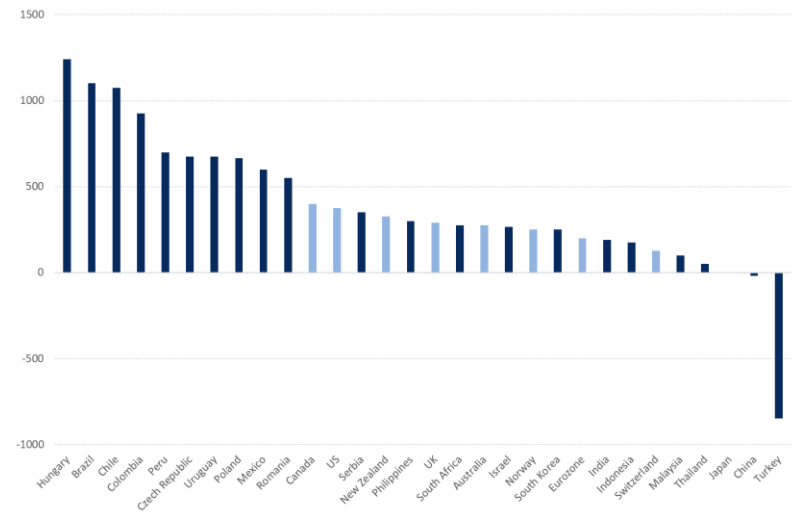
- EMD offers **attractive carry & strong fundamentals** as EM central banks started tightening earlier than in DM.
- **Selectivity** is key, but EMD is a **good diversifier** for a multi-asset strategy (~ 9.7% correlation with EUR rates).

EM CBs started hiking earlier than DM ...



Sources: DPAM, Bloomberg

... and much more aggressively

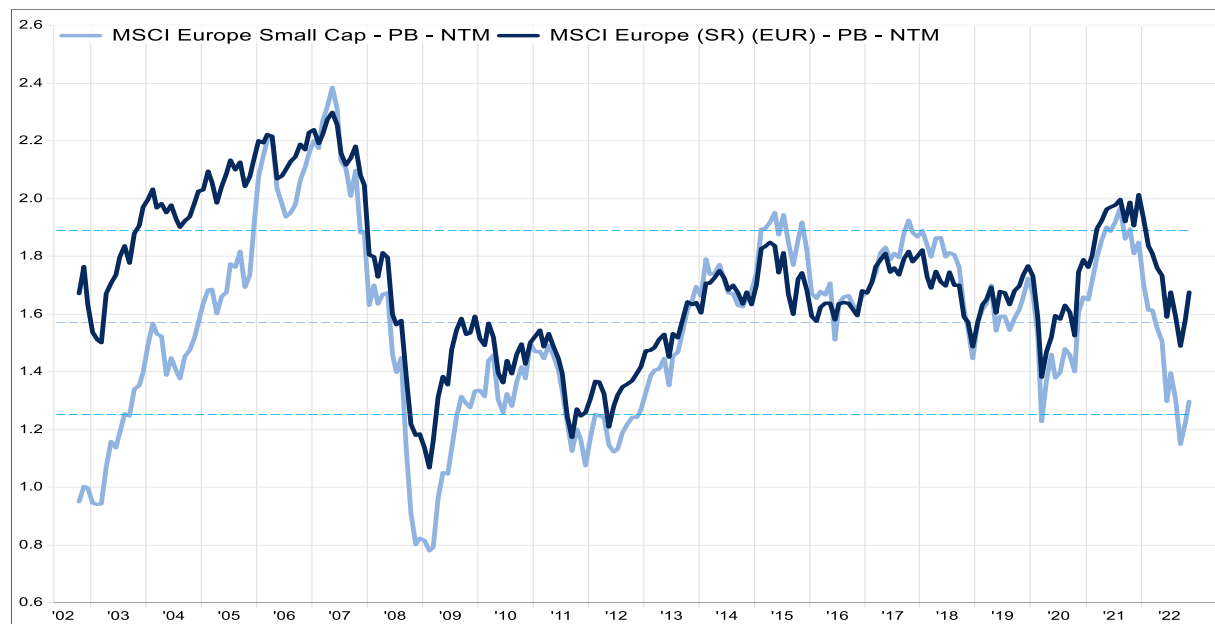


Sources: DPAM, Bloomberg



OPPORTUNITY 4: EQUITIES EUROPEAN SMALL CAPS

- **Near-term**, we remain **cautious** on Small caps given economic uncertainty, fading risk appetite and lower liquidity.
- **Valuations** have become attractive again, but **earnings downgrade momentum** needs to stabilise.
- We believe Small caps will present an **attractive opportunity for H2 '23**.



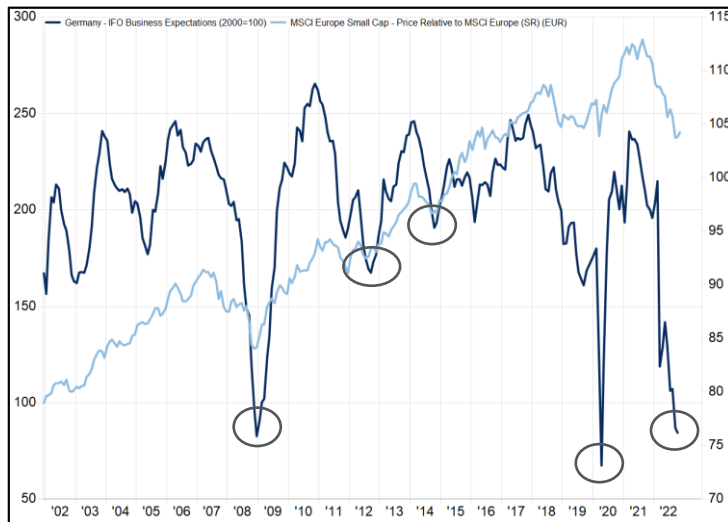
Sources: Factset, Bloomberg, 31.10.22



OPPORTUNITY 4: EQUITIES EUROPEAN SMALL CAPS

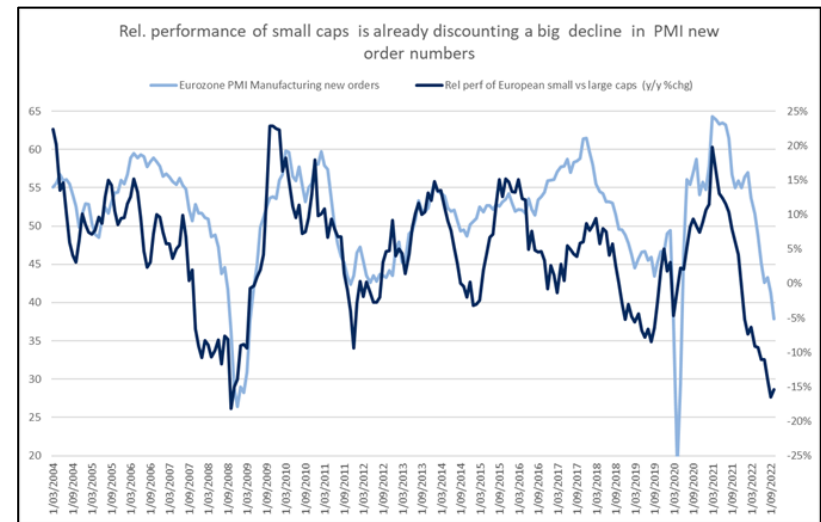
- At turning points in the IFO business expectations, **Small caps lead the recovery.**
- When PMI Manufacturing - new orders stabilise, **Small caps lead the recovery.**

IFO bus. expectations & rel. EU performance (Small vs Large)



Sources: Factset, Bloomberg, 31.10.22

PMI manufacturing new orders & rel. EU performance (Small vs Large)



Sources: Factset, Bloomberg, 31.10.22



- Multi-Asset -

KEY MESSAGES

Expect **stock-bond correlations** to be less positive in 2023, depending on the inflation regime.

We look for **income opportunities** at the start of 2023, given the uncertain economic outlook:

- Risk/reward balance of **US Treasuries** looks appealing,
- **Short-dated High Yields** bonds offer attractive returns with low refinancing risks,
- **EM Debt** offers an attractive carry, good fundamentals and good diversification for MA

European Small caps should lead the recovery in the back half of 2023 as macro-economic uncertainty bottoms out.



THANKS TO YOUR PARTICIPATION TO OUR OUTLOOK 2023,
DPAM WILL DONATE THEIR GOODIE-BUDGET
TO “THE OCEAN CLEANUP”

The Ocean Cleanup, a non-profit organization, is developing advanced technologies to rid the world's oceans of plastic.



CLEAN UP what is already polluting our oceans



INTERCEPT plastic on its way to the ocean via rivers




SCIENTIFIC RESEARCH
to understand the problem and develop cleanup solutions





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
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